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LETTER DATED 4 AUGUST 1993 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED PURSUANT TO RESOLUTION 724 (1991) CONCERNING YUGOSLAVIA ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to refer to the letter dated 2 July 1993 (S/26040), by which the Acting Chairman of the Security Council Committee established pursuant to resolution 724 (1991) concerning Yugoslavia transmitted to the President of the Security Council the recommendations adopted by the Committee in response to requests by five States for assistance under the provisions of Article 50 of the Charter of the United Nations.

At its 81st meeting, on 4 August 1993, the Committee adopted without objection a further recommendation to you, in your capacity as President of the Security Council, in the form of a draft decision submitted by the Committee's Working Group with regard to the application by Albania. The recommendation is set out hereunder. The Committee also decided that it would, with the concurrence of the applicant State, transmit, together with the relevant recommendation, the text of the memorandum and any additional explanatory material which the State had provided in the presentation and support of its application.

The present recommendation brings to six the number of States, out of eight that have so far applied, upon which recommendations have been made by the Committee. The recommendations concerning the remaining two requests, together with the attendant documentation, will be transmitted once approved by the Committee.

(Signed) Ronaldo Mota SARDENBERG
Chairman
Security Council Committee established
pursuant to resolution 724 (1991)
concerning Yugoslavia

Annex I

Recommendation by the Security Council Committee established pursuant to resolution 724 (1991) concerning Yugoslavia with regard to Albania

"The Security Council Committee established pursuant to resolution 724 (1991) concerning Yugoslavia,

"Having dealt with the communication received from Albania under Article 50 of the Charter of the United Nations,

"Recalling Security Council resolutions 713 (1991) of 25 September 1991, 724 (1991) of 15 December 1991, 757 (1992) of 30 May 1992, 787 (1992) of 16 November 1992, and 820 (1993) of 17 April 1993, in which the Council decided to impose an arms embargo against the territory of the former Socialist Federal Republic of Yugoslavia and a comprehensive set of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro), and Security Council resolution 843 (1993) of 18 June 1993 in which the Council entrusted the Committee established pursuant to its resolution 724 (1991) with the task of examining requests for assistance under the provisions of Article 50 of the Charter of the United Nations, as well as other relevant resolutions,

"Recalling further the provisions of Articles 25, 49 and 50 of the Charter of the United Nations,

"Noting the information submitted by Albania (COMM.5024) regarding the measures taken to give full effect to the sanctions as laid down in Security Council resolutions 757 (1992), 787 (1992) and 820 (1993), and concerning the special economic problems it has been confronted with as a result of the implementation of those measures,

"Having heard the representative of Albania,

"Expressing concern at the special economic problems confronting Albania as a result of the severance of its economic relations with the Federal Republic of Yugoslavia (Serbia and Montenegro), as required by Security Council resolutions 757 (1992), 787 (1992) and 820 (1993), which are particularly difficult in terms of commercial and financial losses incurred by Albania,

"Recognizing that the continued full implementation of Security Council resolutions 713 (1991), 724 (1991), 757 (1992), 787 (1992) and 820 (1993) by Albania, as well as other States, will support the measures to ensure compliance with these and other relevant resolutions,

"1. Commends the Governing of Albania for the measures it has taken to comply with Security Council resolutions 713 (1991), 724 (1991), 757 (1992), 787 (1992) and 820 (1993);

"2. Recognizes the urgent need to assist Albania in coping with its special economic problems resulting from the severance of its economic relations with the Federal Republic of Yugoslavia (Serbia and Montenegro), as required by

Security Council resolutions 757 (1992), 787 (1992) and 820 (1993), especially commercial and financial losses incurred by Albania;

"3. Appeals to all States on an urgent basis to provide immediate technical, financial and material assistance to Albania to mitigate the adverse impact on its economy of the application by Albania of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro) pursuant to Security Council resolutions 757 (1992), 787 (1992) and 820 (1993);

"4. Invites the competent organs and specialized agencies of the United Nations system, including the international financial institutions, and the regional development banks, to consider how their assistance programmes and facilities might be helpful to Albania, with a view to alleviating its special economic problems arising from the application of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro) pursuant to Security Council resolutions 757 (1992), 787 (1992) and 820 (1993);

"5. Requests the Secretary-General on a regular basis, to seek information from States and the concerned organs and agencies of the United Nations system on action taken to alleviate the special economic problems of Albania and to report thereon to the Security Council."

Enclosure 1

Letter dated 7 July 1993 from the Permanent Representative of Albania to the United Nations addressed to the Chairman of the Security Council Committee established pursuant to resolution 724 (1991) concerning Yugoslavia

I have the honour to transmit herewith the Memorandum of the Government of the Republic of Albania "On the losses to the Albanian Economy associated with implementation of United Nations sanctions towards Yugoslavia (Serbia and Montenegro), as well as the war in Bosnia".

I strongly believe that the Committee you chair will seriously consider the difficulties the Albanian economy is facing and take appropriate measures in accordance with the resolution 843 (1993) and other relevant resolutions in order to make possible to the Republic of Albania the enjoyment of the right provided for in Article 50 of the Charter of the United Nations.

(Signed) Thanas SHKURTI
Ambassador
Permanent Representative

Enclosure 2

Memorandum dated 25 June 1993 of the Government of Albania on the losses to the Albanian economy associated with implementation of United Nations sanctions towards Yugoslavia, as well as the war in Bosnia and Herzegovina

The Government of the Republic of Albania fully supports United Nations Security Council resolutions 757 (1992), 787 (1992) and 820 (1993). Albania, as a neighbouring State to Yugoslavia, plays a key role in international compliance with these Security Council resolutions. The Government is committed to accept its obligations under these resolutions and will enforce strictly the embargo against Yugoslavia, as it has in the past.

The Government makes this commitment despite the direct losses to the Albanian economy caused by the embargo (see annex I). The former Yugoslavia was traditionally one of Albania's principal trading partners. Enforcement of sanctions has not only cut off one of Albania's key export markets but has also destroyed or disrupted important supply channels for essential imports to the Albanian economy. This has imposed severe hardship within Albania, in terms of a precipitous decline in production, increased unemployment, and inflation. Moreover, international transportation routes have necessarily been altered, raising the costs of imports from non-Yugoslav suppliers and undermining our country's competitive position in Albania's traditional export markets outside the region.

In addition to the direct losses resulting from enforcement of United Nations Security Council resolutions 757, 787, and 820, the Albanian economy has suffered indirect losses arising from a reduction in economic activity caused by the embargo and the war in Bosnia (see annex II). In 1992, the Government of Albania embarked upon a radical economic programme aimed at stabilizing the economy and bringing about deep structural reforms. This programme involved a wholesale revision of relative prices, the near-total liberalization of international trade, a major transfer of economic activity from the State to the private sector, as well as the establishment of a legal framework needed for a market economy to operate. While the initial results of this programme are favourable, the capacity of the economy to respond to the new market-oriented incentives has been hampered by the sanctions and the instability created by the war in Bosnia. Thus, Albania's economic depression has been worse, and the pace of the economic recovery has been slower, as a consequence of international factors beyond its control.

The Government strongly endorses the recommendation of the Working Group of the Security Council Committee established by resolution 724. In particular, the Government:

- Requests the Secretary-General of the United Nations to hold consultations with the Managing Director of the IMF and the President of the World Bank to discuss the possibilities of establishing a special facility to be financed jointly by the IMF, World Bank, and UNDP to assist States invoking Article 50 of the Charter of the United Nations in coping with their special economic problems;

- Requests the Secretary-General of the United Nations to study the possibilities of establishing a special contingency fund within the existing United Nations budget to provide emergency assistance to the States most affected by trade and economic sanctions imposed against other States;

- Requests the Economic and Social Council to render assistance to Member States suffering serious economic losses due to strict observance of trade and economic sanctions;

- Requests the specialized agencies of the United Nations system to adopt measures to alleviate the economic hardships of States resulting from the application of trade and economic sanctions including, inter alia, the establishment of special funds within their budgets to this end;

- Requests the most developed Member States to pay special attention to the needs of other Member States which are sustaining heavy economic losses due to their application of trade and economic sanctions.

Given the estimated direct and indirect losses to the Albanian economy of between $300-400 million, the Government considers the Republic of Albania to be in need of extraordinary assistance.

Annex II

Direct losses to the Albanian economy

1. Loss of exports

a. Yugoslavia was the single largest market for Albania's exports, accounting for approximately 15 per cent of the total FOB value of $320 million exported per year on average during the 1980s (pricing exports at the fixed exchange rates then prevailing, including Ruble-denominated trade). It was also one of the largest markets for Albania's principal exports, such as electricity, minerals, agricultural products, and light manufactures. These exports were worth approximately $48 million/year. Subtracting from this amount the FOB value of goods still exported to Croatia, Slovenia, Macedonia and Bosnia ($1 million in 1992), the total loss of exports to Yugoslavia can be estimated at $47 million/year.

b. The embargo has not only affected Albania's exports to now-independent republics of the former Yugoslavia, but also to many other traditional non-Yugoslav markets. Now that these goods cannot be shipped through Yugoslav territory, the higher costs resulting from alternative transportation routes (if available at all) have rendered a significant proportion of Albania's exports no longer competitive. For example, during the 1980s, approximately 61 per cent of Albania's exports were purchased by countries of the CMEA, Germany, France and Austria, representing an FOB value of $195.2 million (again, pricing exports at the fixed exchange rates then prevailing, including Ruble-denominated trade). Much of these goods were transported over land through Yugoslavia. In 1992, the FOB value of exports to these countries was approximately $50 million. Subtracting the value of exports to both Bulgaria and Romania which were not appreciably affected by the embargo (18 per cent of the total FOB value on average during the 1980s), and assuming transport difficulties and higher costs account for 10 per cent of the decline of exports from normal levels, the total export losses to non-Yugoslav markets resulting from the embargo can be estimated at $10.2 million/year.

2. Loss of imports and domestic production

a. Yugoslavia was traditionally a principal supplier (first or second rank) of Albania's imports, accounting for on average approximately 11 per cent of the total CIF value imported during the 1980s, or approximately $35 million/year. In 1992, the total CIF value of goods imported from the republics of the former Yugoslavia was $800,000, virtually all from Croatia, Slovenia, Macedonia and Bosnia. Discounting this latter amount, and assuming the cost of goods imported from alternative suppliers is 10 per cent higher than from traditional suppliers in Yugoslavia, the total loss from higher import costs can be estimated at $3.4 million/year.

b. Of more profound impact are the losses associated with cancelled import supply contracts which have affected domestic production (excluding production that is exported) in Albania. For example, taking into account only the impact on State enterprises in some key sectors, the losses for 1992 are estimated as follows: agriculture and food industry - $10 million; construction - $3.8 million; petroleum - $1.1 million; and tourism - $600,000. Taken together, the Ministry of Trade estimates that the total losses to domestic production associated with the disruption of import supplies from Yugoslavia is $20 million/year.

3. Higher transportation costs

As a result of the embargo, transportation costs associated with foreign trade have risen because importers and exporters are no longer able to transship commodities through Yugoslavia, which is the most direct route to Albania's principal trading partners. The Ministry of Transportation and Communications estimates that the higher costs incurred in 1992 as a result of the need to use alternative transportation routes were $1.7 million in 1992.

Total direct annual losses (Summary):

1. Exports:

a.	Yugoslavia:	$47.0 million
b.	Non-Yugoslav:	$10.2 million
	Total:	$57.2 million

2. Higher import costs and lost domestic production:

a.	Higher import costs:	$ 3.4 million
b.	Lost production:	$20.0 million
	Total:	$23.4 million

3. Higher transportation costs:

Total:	$ 2.0 million
Grand total:	$82.6 million

Annex III

Indirect losses to the Albanian economy

1. Forgone foreign investment

The embargo and the war in Bosnia have cast a shadow over Albania in the eyes of foreign investors. While the Albanian economy is now almost entirely open to foreign investors, and hundreds of investment plans have been made during the past two years, many projects, including some of the largest, have been postponed or even cancelled as a result of the perception that instability in the Balkans could spill over into Albania. While the Government, as well as most prospective foreign investors, consider Albania to be a stable and suitable place for foreign investment, the efforts of many investors to raise finance for their projects have been hampered by such concerns in international capital markets. As a consequence, direct foreign investment in Albania in 1992 was only $20 million, versus some $100 million projected by international financial institutions before the embargo was imposed.

It is impossible to estimate accurately what investment projects would have occurred in the absence of the embargo and war. However, it is clear to the Government that the conflict was directly responsible for delays in several large projects in Albania, including:

- an expansion of Albania's international airport, valued at $85 million;

- three major hotel/office complex projects in Tirana valued at $130 million;

- a $20 million investment in a soft drinks bottling facility;

- a slow-down in offshore petroleum exploration activity.

The Government estimates that delays in these foreign investments and other smaller, but more numerous projects have cost Albania $120 million in lost economic activity in 1992.

2. Losses due to dynamic effects

The economic losses described and estimated above are "static" in nature. In fact, all economies are dynamic. For example, workers who lose their jobs due to an external shock, such as those in Albania, suffer a decline in income which, in turn, reduces aggregate demand and output. Various methodologies can be used to estimate such dynamic effects but none yield unambiguous results, especially in Albania's case, where accurate data are in short supply and the economy is changing rapidly due to endogenous factors. Nevertheless, such effects are real, albeit difficult to measure.

Given that the decline in exports represents the single largest direct economic loss attributable to the embargo, a focus on this variable probably best captures the losses to GDP due to dynamic effects. During the period 1980/91, exports (at current prices) in both convertible and non-convertible currencies represented on average approximately 17 per cent of GDP. Moreover, a 1 per cent change in this ratio is correlated with a 2.5 per cent change in GDP (in constant prices). Assuming this ratio (1:2.5) to be a norm for Albania, one can estimate by this means that the loss of $57.2 million in exports to Yugoslavia and non-Yugoslav markets in 1992 cost the Albanian economy $143 million. Subtracting the direct loss of $57.2 million (which is already counted under "direct losses"), the net loss to the economy due to dynamic effects in 1992 was $85.8 million. Allowing for dynamic effects resulting from other direct economic losses, such as higher import costs, lost production from import shortages, and higher transportation costs, the total net losses to the economy due to dynamic effects was probably $100-110 million in 1992. If the dynamic effects of forgone foreign investment were to be taken into account, the losses to the Albanian economy would be still higher.